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UNCLAS BOGOTA 005979

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SUBJECT: DRUMMOND LTD. SITE VISIT - LA LOMA COAL MINING PROJECT

REF: BOGOTA 5565

1. Summary. In a recent visit related to the Cartagena Energy Conference (reported reftel), Department of Energy Deputy Secretary Clay Sell and the DCM conducted a site tour of one of the world's largest surface coal mining operations in Cesar Department, northern Colombia. Mike Tracy, President of the Mining Division and other Drummond executives provided briefings and a tour of the Pribbenow Mine or the La Loma Coal Mining Project. During the tour portion, Drummond officials showed the seams where coal extraction takes place using a 6,500 ton dragline crane, GPS-guided dump truck transportation and coal processing operations, and the railcar loading site. Drummond officials provided summary production figures and outlined successful local employment and social investment practices. End Summary.

2. In the late 1980s, Drummond acquired the rights to explore, exploit, and export coal from Cesar Department near the city of Valledupar. From 1995-2003, approximately 75 million tons of coal has been mined at the Pribbenow Mine. Current production rates average 25 million tons per annum but Drummond expects to increase this rate to 40-45 million tons over the next three years. By contrast, the largest U.S. coal mine east of the Mississippi River produces 4 million tons a year according to Drummond officials. The mine generates high quality coal with an average energy of 11,700 BTUs per ton. Ash and sulphur content is low, averaging 4.9 percent and 0.37 percent respectively. Consequently, coal from the site garners a high market price of USD 150-180 per ton. The Pribbenow tract contains over 500 million tons of remaining reserves. Drummond is preparing to begin extraction at the neighboring El Descanso tract that contains an estimated 1-2 billion tons of reserves. Other tracts have yet to be fully explored so reserve estimates are not yet available.

3. Drummond concessions include a large quantity of natural gas. Company officials stated they use this source to create their own ammonium nitrate, eliminating the need to import explosives. Drummond also maintains a natural gas power plant on site so the company is able to provide much, but not all of its own power. The company has plans to explore for a larger quantity of natural gas which would be produced for sale to others.

4. Drummond transports coal by rail line from the mine to a Caribbean port facility in Santa Marta. The company uses 29 locomotives to move 17 shipments per day on the 193-kilometer journey. Each shipment contains 80 railroad cars and carries about 4,500 tons of product. Once the shipment arrives at the port facility, it is loaded on lighter barges and transferred offshore to large vessels for shipment.

5. Drummond secures its operations through a combination of contracting security forces from the Colombian government and an active social development program that solidifies support for company operations from the local population. While the company contracts approximately 930 security forces to provide perimeter security around the mine, Drummond officials credit their recruiting and training of a 6,000 member local labor force (direct and indirect hires) and their investment in social programs for their enhanced security. Drummond decided early to use the local labor force and not import labor and company officials are proud that 90 percent of mine employees are from Caribbean provinces of Colombia.

6. Drummond has invested heavily in training programs to develop its workforce and contributes to technical development programs in local schools to better prepare potential future employees. The company also spends about USD 5 million per year in seed money for use in partnering with local government in towns located near the mine and the rail transport corridor. Drummond social investments support grants to hospitals, schools and infrastructure development. Company officials stated Drummond's decision to develop a local labor force and make significant social investments have increased the area's standard of living and enhanced community relations. As a result, assert Drummond officials, illegal guerrilla group activity has greatly diminished and been deterred. For example, guerrilla attempts to blow up rail operations were thwarted by reports to authorities from the local population before any damage occurred.

